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UNCLAS SECTION 01 OF 02 RIYADH 009300

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SUBJECT: SAUDI BUDGET: HIGHEST RECORDED BUDGET SURPLUS IN  
SAUDI HISTORY

REF: RIYADH 006566

1. (U) Summary: The strength of the oil market, and growing Saudi economy, drove Saudi Arabia's 2005 budget surplus to its highest recorded level - 57 billion USD, and provides the basis for an expansive new national budget. The largest portion of the budget surplus, 60 percent, is allocated to government debt reduction, with an additional 26 percent for improvements in general and higher education. The newly announced 2006 budget conservatively projects a 14.6 billion USD surplus, with expenditures focused again on improvement of social infrastructure and services, especially in education, health and social affairs. The focus on education underscores the government's continuing effort to address the pool of under-educated young Saudis who are susceptible to extremist influence. End Summary.

#### EXCEPTIONAL BUDGET SURPLUS MAKES THE SAUDI'S RECORD BOOK

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2. (U) Ministry of Finance reports that 2005 is the best year on record for Saudi government finances. The 57 billion USD surplus is two times higher than the second largest surplus recorded in 1980. The budget surplus is allocated to retire a portion of public debt, implement infrastructure projects, and supplement development fund resources. The SAG utilized 60% of the surplus to reduce government debt by 37 billion USD, which stands currently at 126.7 billion USD.

3. (U) Budget Comparison Table (in billions of US dollars)

	2005 Proj	2005 Actual	2005 %Diff	2006 Proj	
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Revenue	74.7	148	98.1	104	
Expenditures		74.7	90.9	21.7	89.3
Balance		0	57	5700	14.7

#### 2006 BUDGET HIGHLIGHTS

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4. (U) To further stimulate fiscal performance, and continue this marked improvement in the government's debt profile, the 2006 Saudi budget, officially released on December 13, 2005, increases spending by 20 percent over 2005 budgeted expenditures. Budget spending priority is given to education and healthcare, consistent with the government's policy the last few years. The Ministry of Finance noted the budget places special emphasis on capital expenditures to enhance economic growth and job creation. Even with the additional expenditures, SAG estimates a 2006 year end budget surplus of 14.6 billion USD. Leading private economists project a much larger surplus of 40 to 65 billion USD given the SAG's conservative use of 31 USD per oil barrel for its calculations, a 17 USD difference in the current prevailing price.

5. (SBU) As in prior years, the SAG does not publish an allocation by line item of the majority of the budget. The budget allocated by category totals 49 percent of all expenditures, with the remaining 51 percent designated in general as "Other." The "Other" category encompasses public administration, defense, domestic security and other government spending and subsidies. This category has continued to increase over the past three years; 70 percent in 2004, 31.8 percent in 2005, and 13.3 percent for 2006. The lack of transparency in this majority portion of the budget makes it uncertain as to the exact figures spent on internal security, defense, as well as allocations to members of the royal family's upkeep.

#### BUDGET EXPENDITURE DETAILS

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6. (U) 2006 Budget Expenditures (in billions of US dollars)

	2005	2006	Diff	%Diff	
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Education and Manpower Dev.			18.7	23.3	4.6 19.7

Health and Social Dev.	7.2	8.3	1.1	13.3
Municipal Projects	2.9	3.6	0.7	19.4
Infrastructure Dev.	4.6	6.0	1.4	23.3
Transportation/Communication	2.4	3.1	0.7	22.6
Other	39.0	45.0	6.0	13.3

17. (U) Education and Manpower Development: 26 percent of the 2006 budget. New project spending totals 6.6 billion USD to include 2673 new schools, rehabilitation of 2000 existing schools, three new universities, 85 university colleges, 3 university hospitals, and various technical and vocational colleges located throughout the Kingdom, including impoverished regions.

18. (U) Health Services and Social Development: 9 percent of the budget. Expenditures for new projects equal 1.14 billion USD to cover 440 primary care centers, 24 hospitals, expansion and development of existing health facilities and furnishing newly completed hospitals.

19. (U) Municipality Projects: 4 percent of budgeted expenditures. The total cost of new projects is 2.67 billion USD, to include roads, intersections and bridges, road lights and cleaning-related projects.

10. (U) Water, Agriculture, and Infrastructure Development: 7 percent of budget. New projects, including water, sewage, and desalination projects, are estimated at 4.8 billion USD.

11. (U) Transportation and Communication: 3 percent of the 2006 budget. New projects costing 3.1 billion USD, encompass 5700km of new roads, ports, airports, and railroad development, and new postal services.

12. (U) Specialized Credit Institutions: As with last year, the budget includes appropriations for replenishing development funds at Saudi Credit Bank, the Real Estate Development Fund and Saudi Industrial Development Fund to increase lending programs, but the Ministry of Finance failed to delineate the total expenditures allotted to this category. 2005 expenditures totaled 2.7 billion USD and 4 percent of the total budget allocations.

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